

Economic Review Meeting

March 4, 2011



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

March 4, 2011
2:30 p.m.

- De-facto approval of November 18th, 2010 Meeting Minutes
- Presentation of economic outlook and revenue collection experience

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STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

Meeting Minutes

Revenue Review

November 18, 2010

John A. Cherberg, Hearing Room 3

Economic and Revenue Forecast Council

Members Present

Craig Pridemore, Senate

Joseph Zarelli, Senate

Ross Hunter, House of Representatives

Ed Orcutt, House of Representatives

Cindi Holmstrom, Department of Revenue

Marty Brown, Office of Financial Management

Staff

Arun Raha, Executive Director, ERFC

Call to Order

The meeting was called to order by Senator Pridemore at 10:00 a.m.

Motion

Minutes from the November 5, 2010 Economic Review Meeting were adopted at 10 a.m.

Presentation on Revenue Forecast

Arun Raha presented information on the revenue forecast. Dr. Raha summarized the forecast changes and provided background information on both the U.S and Washington economies.

Discussion ensued between members and Arun Raha regarding the 2009-11 biennium forecast.

Motion

Representative Orcutt moved to adopt the baseline revenue forecasts, seconded by Senator Pridemore. Marty Brown amended to vote for 2009-11 biennial forecast separate of the 2011-13 biennial forecast. Representative Orcutt agreed to the amendment.

The 2009-11 biennial forecast was adopted with a count of five votes with one dissenting vote from Marty Brown at 10:28 a.m.

The 2011-13 biennial forecast was adopted unanimously at 10:29 a.m.

Adjournment

Meeting adjourned at 10:39 a.m.

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**Economic & Revenue Forecast Council
State of Washington**



Economic Review: March 4, 2011

Executive Summary

- The economic outlook has improved somewhat since our November forecast, but it is still clouded with a great deal of uncertainty. Last spring, when the national economy appeared to be on the verge of a rebound, it lost steam on fears of European sovereign debt defaults. By year end, the economic recovery again appeared to be gathering momentum, but is now potentially threatened by events in the Middle East. What happens next is critically dependant on how soon stability returns to that region. If the crisis continues, and spreads to other countries, oil prices will continue to rise. As the price of gas keeps rising at the pump, it will have a disproportionate dampening effect on consumer confidence. In a recovery that must now be powered by private demand, that would create an unwelcome headwind.
- Positive developments since the November forecast have been higher than expected: GDP growth in the fourth quarter; healthy holiday sales; an extension of the 2001/2003 tax cuts by two years; and a 2% cut in payroll taxes for a year. All of this is reflected in a modest improvement in both consumer spending and consumer confidence. Whether or not the virtuous cycle from these events continues, as mentioned above, depends on how long the unrest in the Middle East drags on.
- Other headwinds anticipated in the November forecast continue – slow job growth; a sluggish housing market; tight credit for small businesses; consumer retrenchment after the holidays; and fiscal drag from the federal stimulus winding down, as well as, cuts in state and local government expenditures.
- The national average gas price at the pump, as of the end of February, was \$3.38 per gallon, up 19 cents in a week, and up 68 cents from a year ago. Energy price inflation in January was 7.5% over a year ago, while that for food was 1.8%. All-items inflation was still relatively benign at 1.7%. Core inflation, i.e. all-items excluding food and energy was up just 1.0%. It is unlikely, given the slack in labor markets that the spike in energy prices will be able to stoke overall inflation. The Fed is likely to stay on the sidelines for this year. The danger from rising energy prices instead, comes from eroding consumer confidence and reducing consumer discretionary spending.
- Real GDP grew at a 2.8% seasonally adjusted annualized rate (SAAR) in 2010Q4, higher than our November forecast projection of 2.2% (SAAR) growth. Consumer spending grew 4.1% (SAAR). Our projection had been 2.2% growth. State and local government spending, however, contracted by 2.4% (SAAR), constraining overall GDP growth. Exports grew by 9.6% (SAAR) while imports fell by 12.4% (SAAR). Projections for GDP growth in the current forecast have been revised upward.

- Personal income grew by 1.0% in January, boosted by a 2% cut in employee contributions to payroll taxes. Personal consumption expenditures, however, grew just 0.2%, boosting the savings rate to 5.8%. This post-holiday retrenchment in consumer spending had been anticipated by us in November. We expect it to be temporary and for spending to improve again starting in February. Retail sales, which are broader than consumer spending, were up 8.3% year-over-year in January. If February car sales of 13.4 million (SAAR) units (up 28% year-over-year) are an indication, then we can expect continued growth in this category.
- Housing is now in neutral – no longer subtracting from growth, but not adding to it either. We anticipate another year of muddle-through as the market sheds excess inventory, some of which is still on the sidelines. A meaningful recovery will not happen until 2012, and only after home prices start to rise again. Housing starts jumped 14.6% in January to a well below normal 596,000 (SAAR) units, entirely due to spike in the volatile multi-family segment. New single family home sales fell 12.6% in January, retreating almost entirely from gains in December. Existing home sales were up a modest 2.6%. The Case-Shiller 20-city home price index fell 0.4% (SA) in December, its sixth consecutive monthly drop, and is down 2.4% from a year ago. Longer term equilibrium in this market will also depend on how the federal government unwinds its ownership of Fannie Mae and Freddie Mac, the largest players in the secondary mortgage market. This is an issue worth keeping an eye on, especially as it moves to the forefront.
- As we go to press we do not yet have access to the national February employment report, scheduled for release today. While employment continues to lag the recovery, buried in the January employment situation report there was some good news. Although net job growth in January was just 36,000 (SA), according to the survey of hiring establishments, a separate survey of households, showed that the unemployment rate fell 0.4 percentage points for a second consecutive month. It now stands at 9.0%, down from 9.8% in November. That same household survey also indicated that the number of people employed grew by 589,000 and the number unemployed declined by about that much. These two snapshots appear to be telling two different stories, but that is not unusual at turning points in the economy. During a recovery, there are many new business startups, that aren't fully accounted for in the establishment survey, but are part of the household survey. So it is likely that the net job growth in the establishment survey is understated.
- As expected, the Washington economy has continued to recover slowly. In the three months since the November forecast was released, the state's economy has generated 7,100 net new jobs which is close to the 7,300 predicted in November. The state's private sector did a little better, adding 7,400 jobs in November, December, and January. The manufacturing sector showed strong growth during the last three months, adding 2,900 jobs of which 2,100 were in the aerospace industry. Construction remains weak, shedding 3,600 net jobs, mostly in nonresidential construction. Private services-producing employment grew by 8,000 in the last three months, led by an increase of 3,300 jobs in retail trade. In the public sector, the federal government added 600 jobs but state and local government employment fell by 900 jobs. We expect the job picture to improve gradually over the course of 2011. Our

forecast for employment growth in 2011 is unchanged since our November forecast at 1.2% on an annual average basis. We now expect Washington employment to grow 2.8% in 2012 and 2.6% in 2013 compared to 2.7% per year in the November forecast.

- Non-geeks or normal people can skip this bullet! We have added an element of sophistication to our historical estimates of non-benchmarked employment data. The employment data described above and used in the preparation of the March forecast differs from the estimates produced by the Washington State Department of Employment Security and the U.S. Bureau of Labor Statistics. To both improve the estimates, as well as reduce their variance from final benchmarked data, we have applied a Kalman-type standard "signal extraction" or "filtering" methodology to the data. In simple terms, we combine the employment information from the WA sample (which measures the behavior of the true unseen employment number, but with an error) with information derived from a system of equations that describes how that unseen variable (true employment) behaves. The system of equations also projects employment levels with an error. Combining the two estimates however produces more accurate and less volatile results than either does by itself.
- The news of Boeing's tanker win came after the release of the preliminary March economic forecast but will be incorporated in the final March forecast. The tanker contract will preserve the 767 production line which otherwise would likely have been shut down in a few years. While this is definitely good news for Boeing and the Washington economy, we believe the bulk of the positive impact will occur after the 2011-13 biennium. Production is expected to start in 2015 with the first deliveries in 2017 though there could be some hiring or non-layoff of engineering talent prior to production. Even without the tanker win, we were expecting job growth in the aerospace sector related to scheduled production increases in the 777 and 737, as well as, production of the new 787 and 747-8 models. However, the job gains will be limited, because there are fewer positions to rehire as Boeing laid-off around 5,000 employees in the state during this recession, much lower than in the past.
- New home construction in Washington, as measured by building permit data, did somewhat better in the fourth quarter of 2010 than we had expected. However, much of the strength was due to a December spike in the volatile multi-family segment, which is unlikely to continue. Permits for single family units improved to 14,500 (SAAR) in the fourth quarter from 13,700 in the second quarter while multi-family units increased to 7,600 from 6,000. While new home construction is now increasing, the level of activity is still far below normal. On the price front, the Case-Shiller Home Price Index for Seattle showed signs of firming in the spring but prices have declined in each of the past six months and are now down 4.7% since a year ago. We are unlikely to see a strong recovery in housing construction until prices begin rising again. As in November, we expect housing permits to rise only slightly in 2011 to 22,900 from 20,200 in 2010.
- Construction employment remains a drag on the economy, though much less so than in the past. As in November, we expect overall construction employment to bottom out in the second quarter of this year. Nonresidential construction has been lagging residential construction and will continue to do

so. We believe employment in residential building and related special trades will reach its cyclical low in the current quarter but nonresidential construction employment growth will not turn positive until 2012. In spite of a recovery in 2012 and 2013, construction employment will still be 46,800 below its previous peak at the end of 2013.

- The personal income forecast got an unexpected boost from the recent tax deal between the President and Congress. While an extension of the 2001/2003 tax cuts had been assumed in the November forecast, the payroll tax cut was an upside surprise, adding nearly one percent to disposable personal income in 2011. The payroll tax cut was only for one year so its absence in 2012 will be a drag on growth in that year. Largely as a result of the payroll tax cut, we have raised our 2011 personal income forecast to 5.4% from 3.7% but lowered our 2012 forecast to 4.5% from 5.1%.
- Cumulative revenue collections through March 2 are \$74 million below what we had expected at this point in the November forecast. This is 1.5% less than forecasted. The official revenue collections update, showing collections through March 10 will be published on March 11, and our new revenue forecast on March 17.

Downside Risks: 15% probability

- Downside risks are still elevated as in November, and outweigh upside risks.
- Energy prices. The biggest risk to the recovery is a sustained and significant rise in the price of energy. The chance of a double-dip, or “W-shaped” recovery, where the economy falls back into recession this year, had been decreasing in recent months. However, instability in the Middle East has raised that specter again.
- Renewed financial market jitters. While financial markets have slowly recovered since the meltdown in late 2008, they still remain more vulnerable and nervous than usual about negative news.
- Inflation. Top line inflation has ticked up in recent months, and we don’t believe it will feed through to the non-food, non-energy sectors (i.e. the core). However, it may compel the Fed to tighten prematurely, putting the recovery in jeopardy.
- A hard landing in China, which is a sharp slowing in their growth, rather than a recession.
- The high level of uncertainty.

Upside Risks: 5% probability

- Employment growth is faster than expected.
- Consumer confidence is not overly dampened by the recent energy price volatility.
- Commodity prices increases do not feed through to other sectors.

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Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Arun Raha
Chief Economist

March 4, 2011
Olympia, Washington



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Summary

- The economy has performed close to expectations since the November forecast
- Positives
 - GDP growth, exports and final demand growth
 - Improvement in personal income and consumption
 - Stronger consumer confidence
- Rising oil prices pose a threat to the recovery
 - Key is how high and for how long
 - Impact through erosion of consumer confidence
- In neutral
 - Job growth, housing, inflation
- Revenue collections through March 2, 2011 are \$74 million (1.5%) below expectations

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04 March 2011

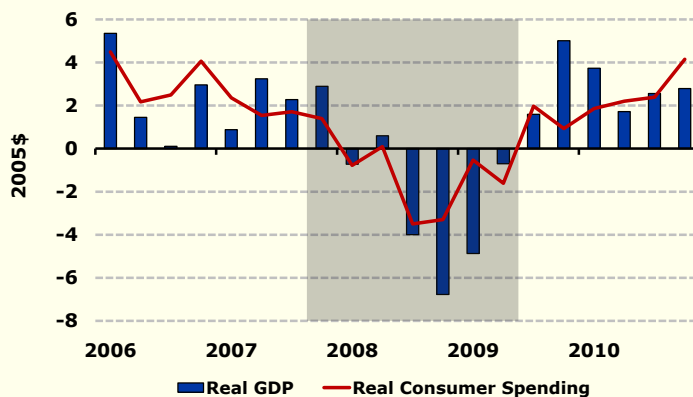
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GDP growth is picking up

Percent growth, SAAR



Source: BEA, data through 2010 Q4, second estimate

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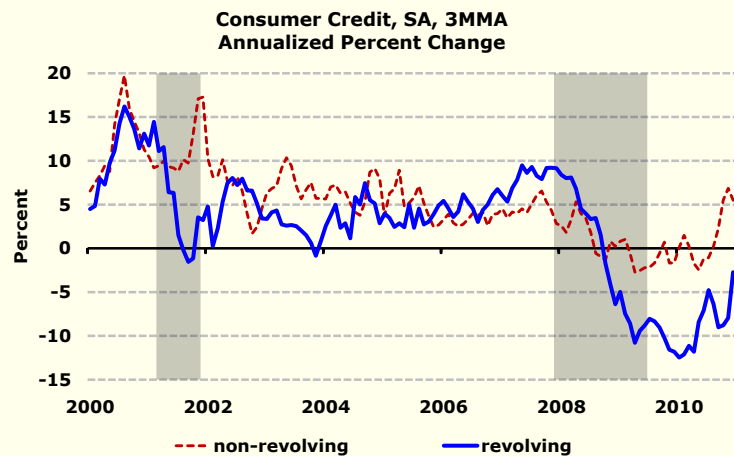


Consumers are again taking on credit card debt

Credit card debt increased by 3.5% (SAAR) in December after 27 consecutive months of decline

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Source: Federal Reserve; data through December 2010

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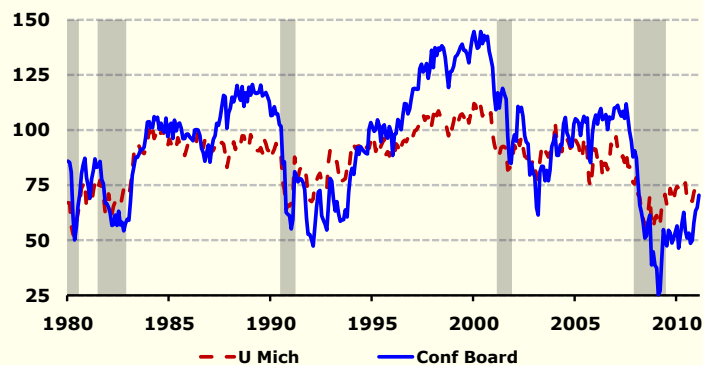


Consumer confidence had started to improve

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Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



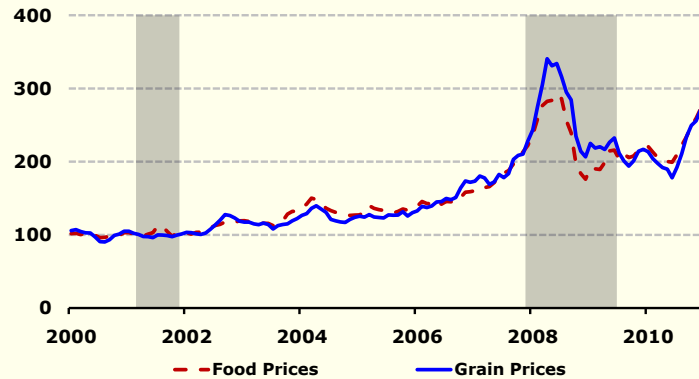
Source: University of Michigan; Conference Board, data through February 2011

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Global food prices are rising

Index 2000 = 100
Current Dollars



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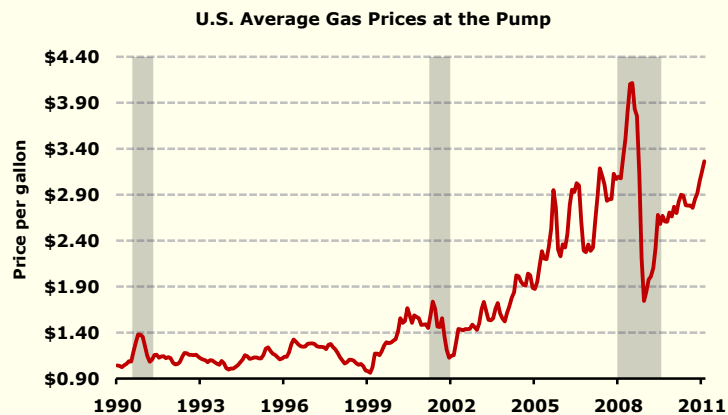
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Source: World Bank; data through January 2011

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Gas prices have spiked in recent weeks



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Source: U.S. Energy Information Administration; data through February 2011

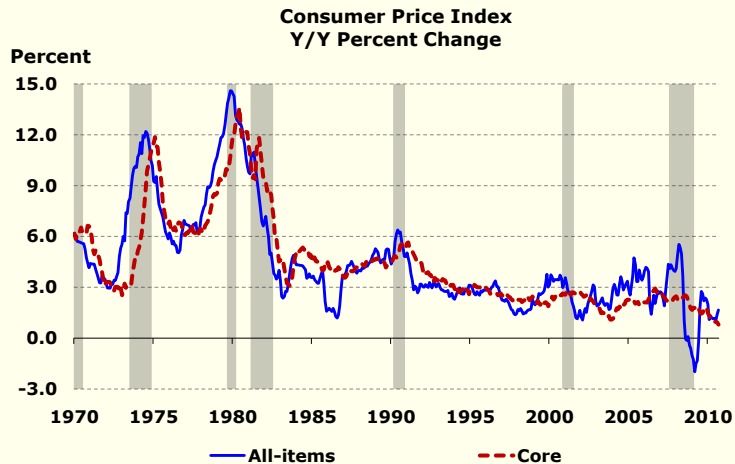
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All-items inflation is ticking up, but the "core" remains stable

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Source: BLS; data through January 2011

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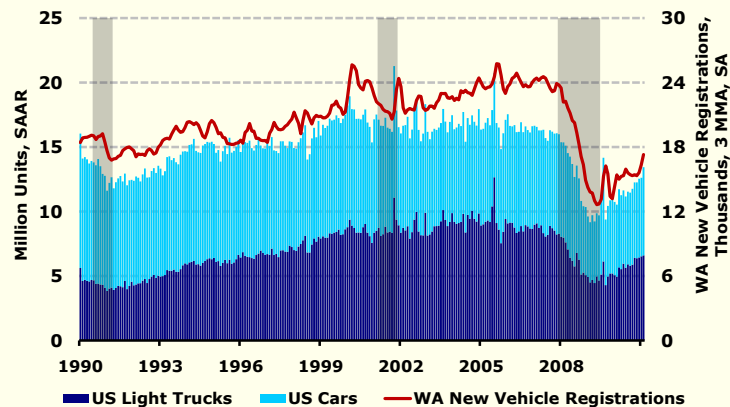


U.S. automotive sales in February were the highest since "cash for clunkers"

U.S. LMV sales were up 28% year-over-year in February

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Source: Autodata Corporation, WA DOL; data through February 2011

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Home prices are once again headed down

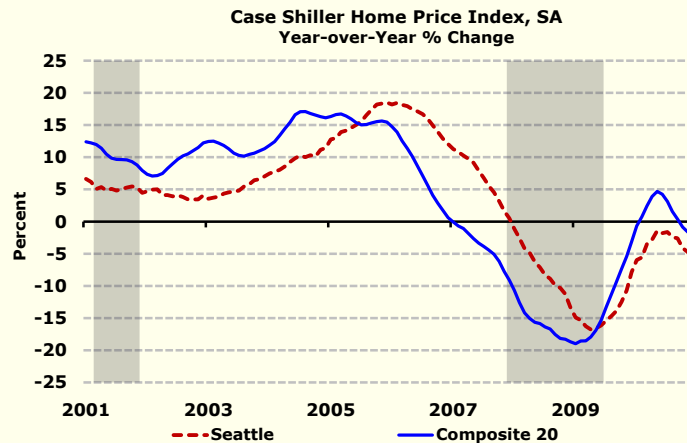
Dec 2010

**U.S is
down
2.4%**

**SEA is
down
6.0%**

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Source: S&P/Case-Shiller; data through December 2010

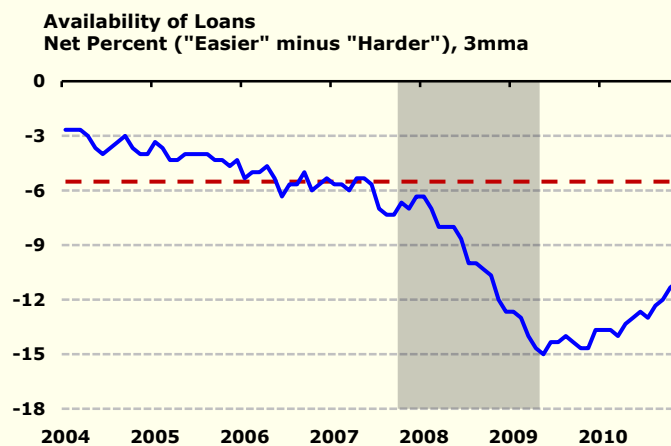
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Credit conditions for small business are improving, but remain tight

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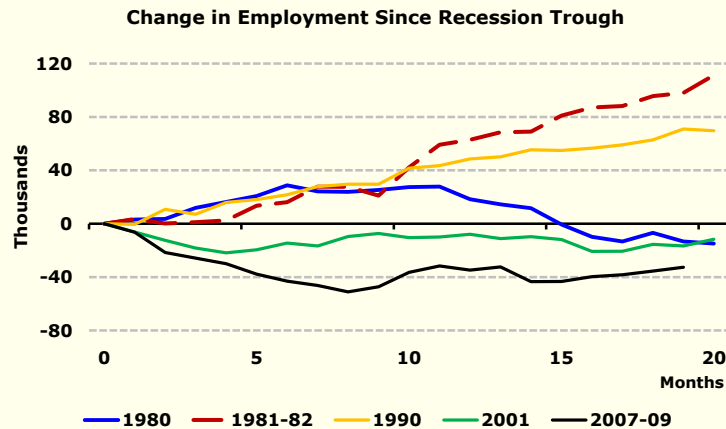


Source: National Federation of Independent Business; data through January 2011

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Employment growth in WA since the trough has been slowest for this recession...



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Source: BLS, WA ESD, ERFC; data through January 2011

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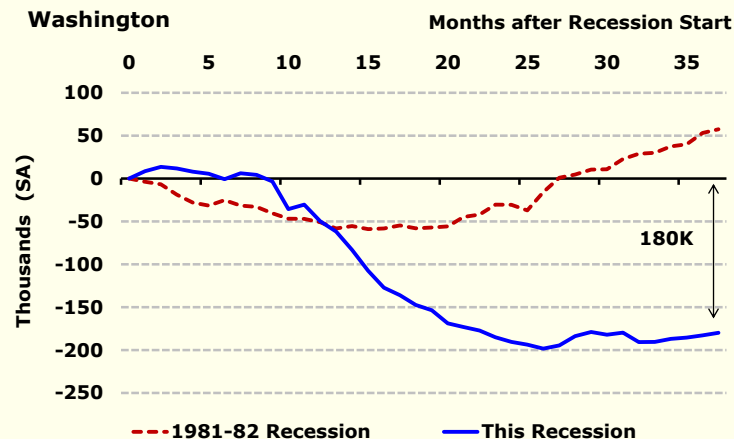


... and the hole we are in is also the toughest

Peak to
trough job
losses

1981-82:
2.9% of
labor force

This time:
5.7% of
labor force



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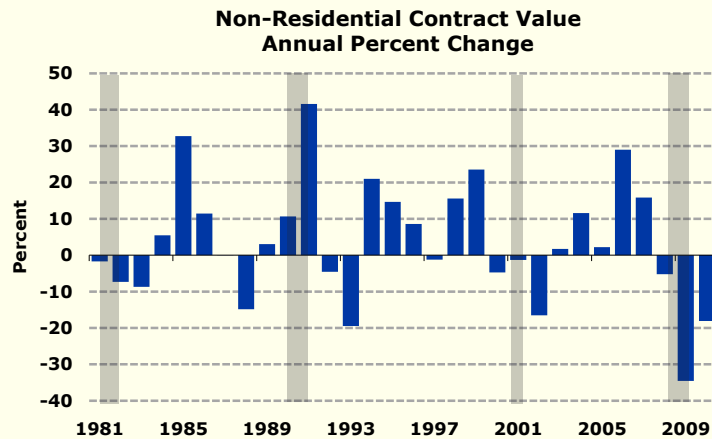
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Source: WA ESD, ERFC; data through January 2011

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This is WA's worst downturn in non-residential construction in 30 years



Source: McGraw-Hill Construction, data through December 2010

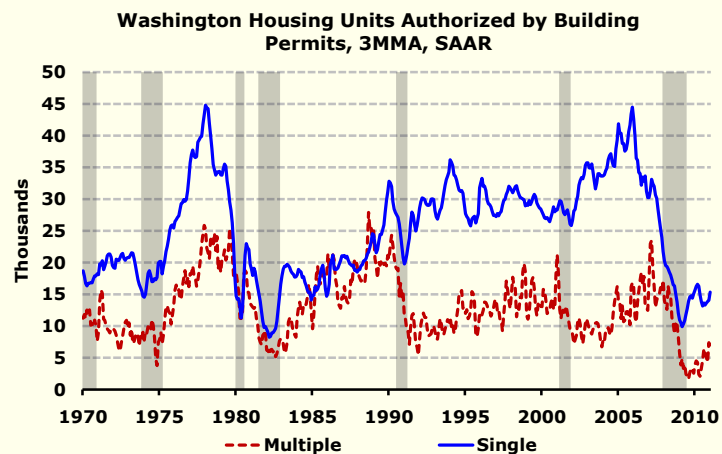
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WA multi-family building permits appear to be recovering



Source: U.S. Census Bureau; data through January 2011

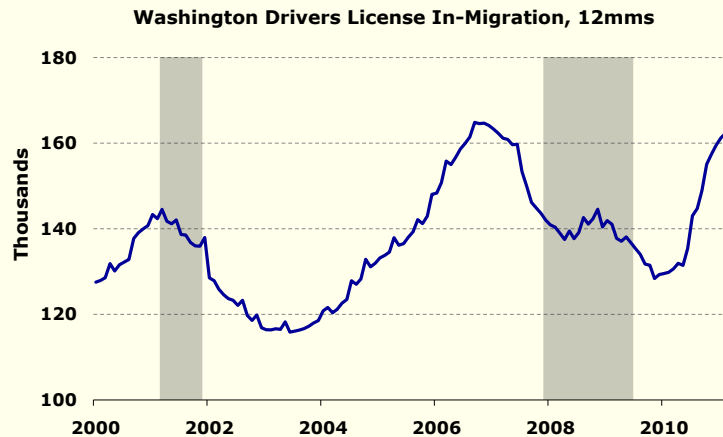
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Migration into Washington is picking up



Source: Washington DOL; data through February 2011

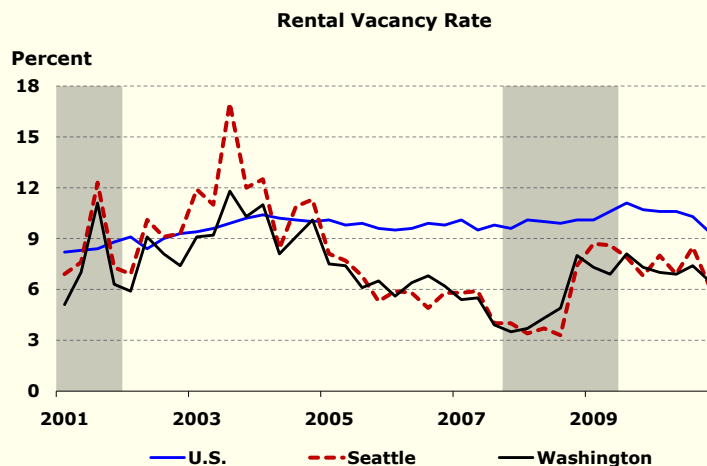
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Rental vacancy rates are declining



Source: U.S. Census Bureau; data through 2010 Q4

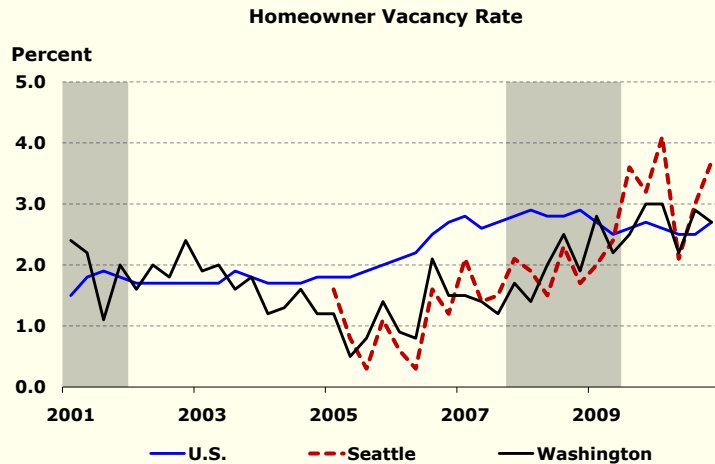
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Homeowner vacancy in Seattle is higher than the national rate



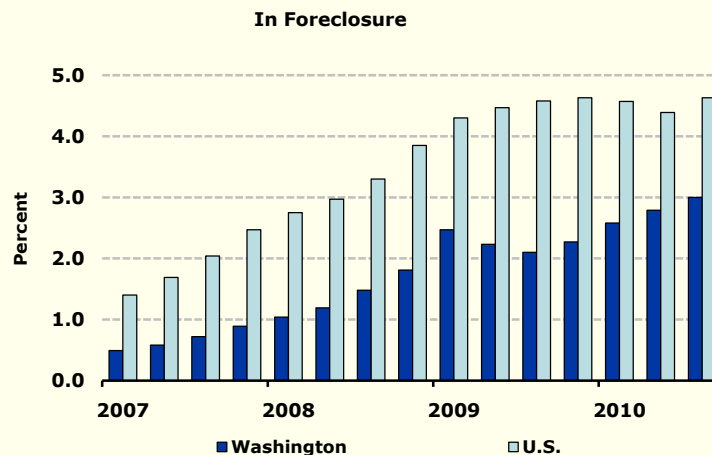
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Foreclosures continue to trend upward in Washington

WA Rank: 33rd



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More foreclosures can be expected...

WA Rank:

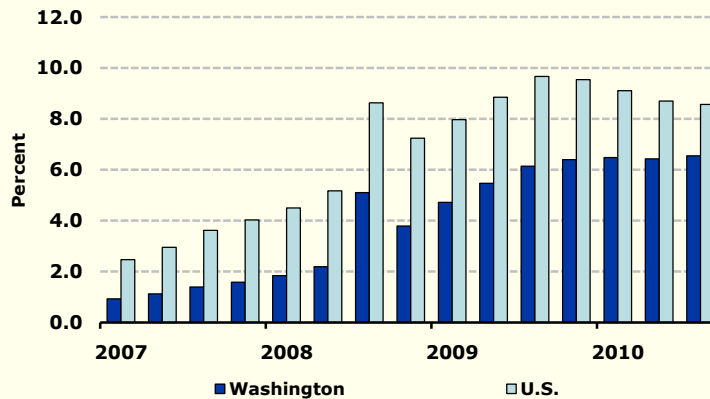
Q3 : 18

Q4 : 25

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Seriously Delinquent



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2010 Q4

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...but will eventually slow down

WA Rank:

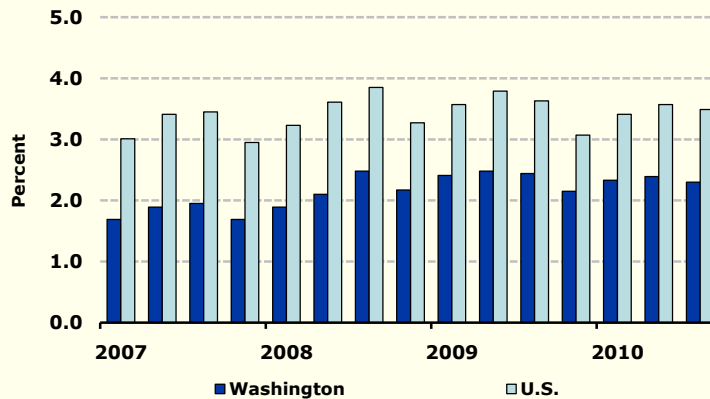
Q3: 46

Q4: 46

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30 Days Past Due

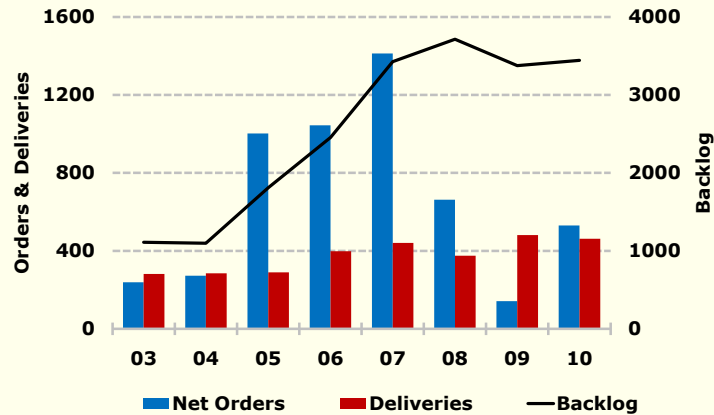


Source: Mortgage Bankers Association® National Delinquency Survey, data through 2010 Q4

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Boeing orders recovered in 2010



Source: Boeing, data through 2010

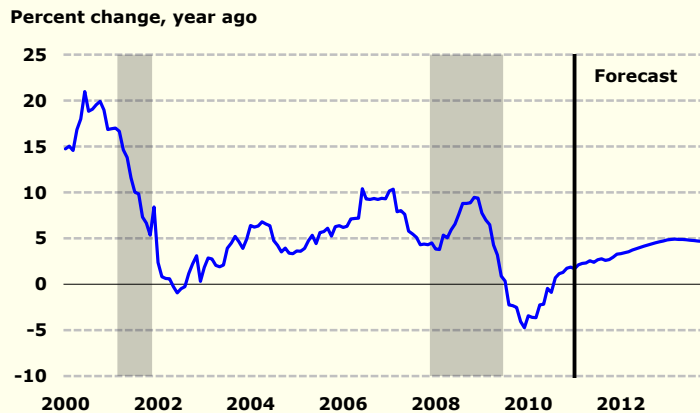
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Software publishing employment is expected to eventually grow at about 5% per year



Source: ERFC Preliminary March 2011 forecast; actual through January 2011

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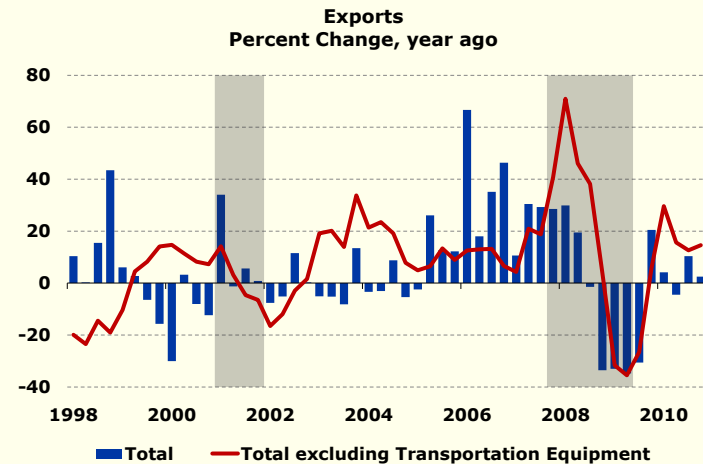


WA export growth is stable, and will help state outperform in the recovery

Total exports were up 2.5% y/y in Q4

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The U.S. began its employment recovery before WA but WA will recover faster

WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

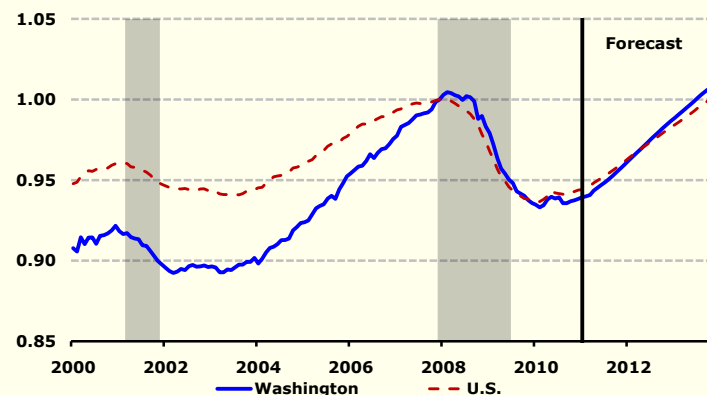
WA also reached its trough 1 month after U.S. (Feb. 2010 vs. Jan. 2010)

WA is forecasted to reach its pre-recession peak in September 2013, the U.S. in November 2013

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December 2007=1.0



Source: ERFC Preliminary March 2011 forecast; actual through January 2011

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WA personal income will recover faster than that of the U.S.

Date of regaining peak:

WA:

Nominal 10Q2

Real 10Q3

U.S.:

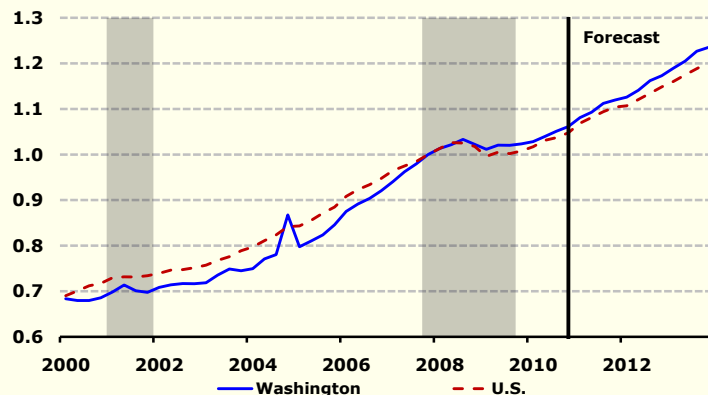
Nominal 10Q2

Real 11Q1

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2007Q4 = 1.0



Source: ERFC Preliminary March 2011 forecast; actual data through 2010Q4

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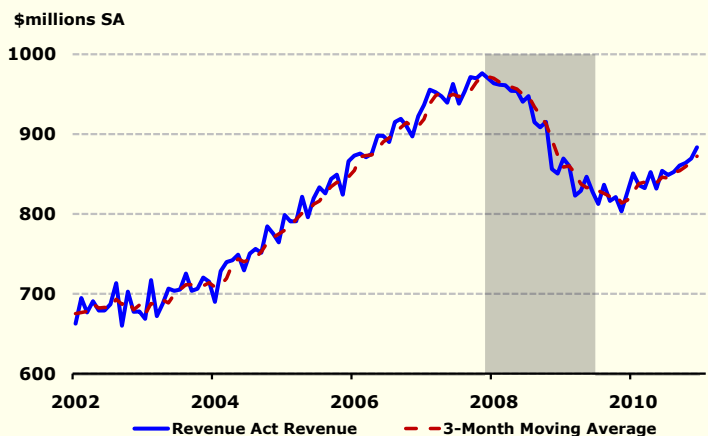


Growth in Revenue Act collections is improving

Preliminary adjusted receipts are up 8.0% year-over-year in the January 11-February 10 collection period – for December activity

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* Adjusted for large one-time transactions and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data preliminary December 2010 activity

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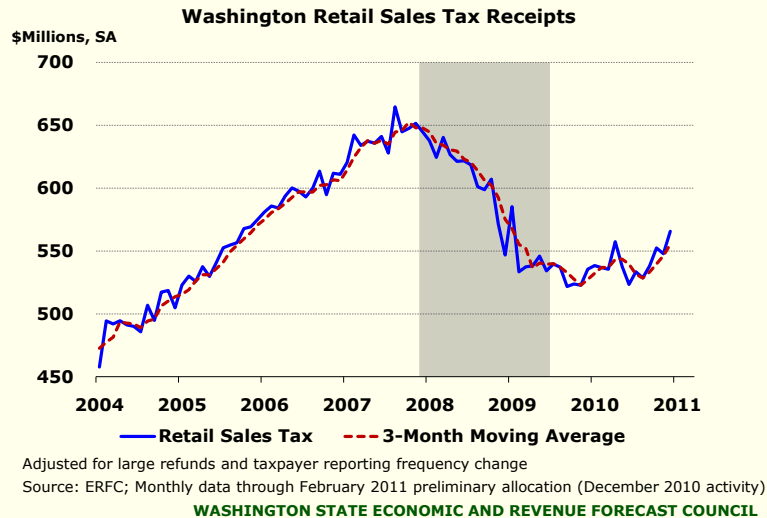


State taxable sales are improving

Without a large refund and a large shift of taxpayers from quarterly to monthly filing status, December activity would have been up an estimated 7% year-over-year

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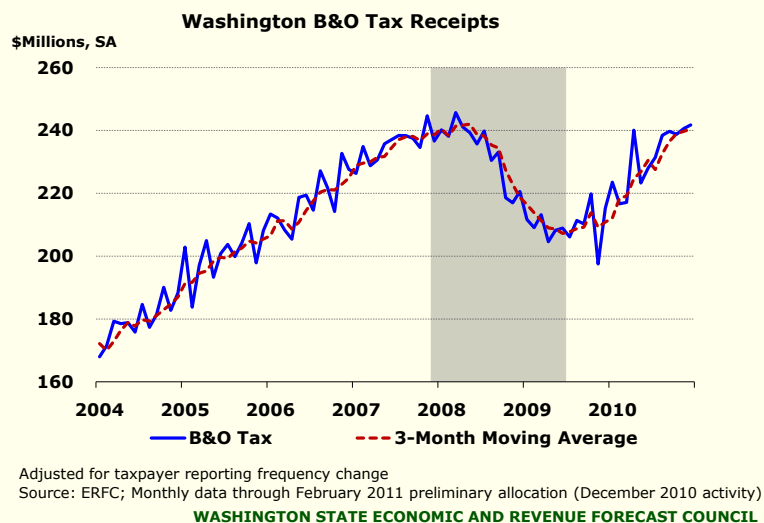
Recovery in B&O tax is being aided by 2010 legislation

Preliminary receipts from December activity are up an estimated 11% year-over-year after adjustment for reporting frequency change

Receipts are nearing their pre-recession peak

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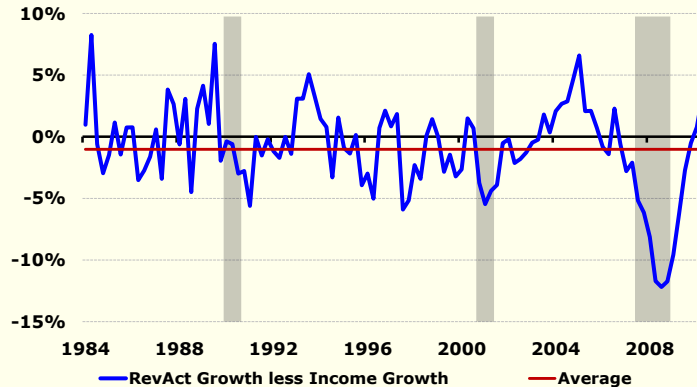
Revenue Act receipts are now growing faster than personal income

The Q3 positive result was due to revenue legislation in 2010

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Y/Y growth in net Revenue Act collections* minus growth in state personal income



* Adjusted for large one-time payments, current definition of Revenue Act

Source: DOR and ERFC; data through 2010Q4

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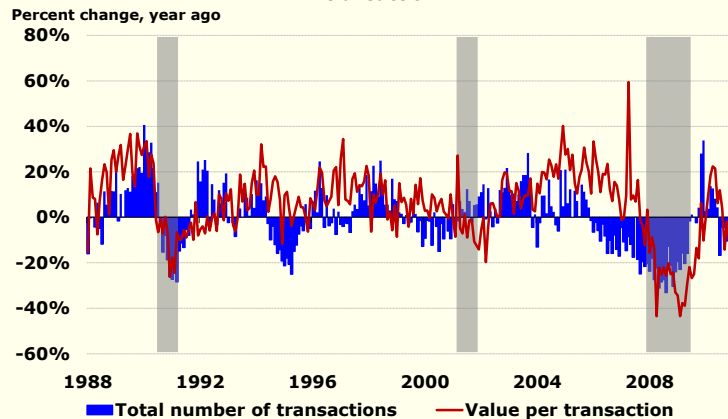
Year-over-year growth in REET transactions is improving, but growth in value is weak

The number of transactions increased 12% year-over-year for sales reported in January, off a base boosted by the tax credits in the prior year

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Real estate activity - number of transactions and value per transaction*



*Taxable activity divided by the total number of transactions.

Source: DOR and ERFC; data through January 2011

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



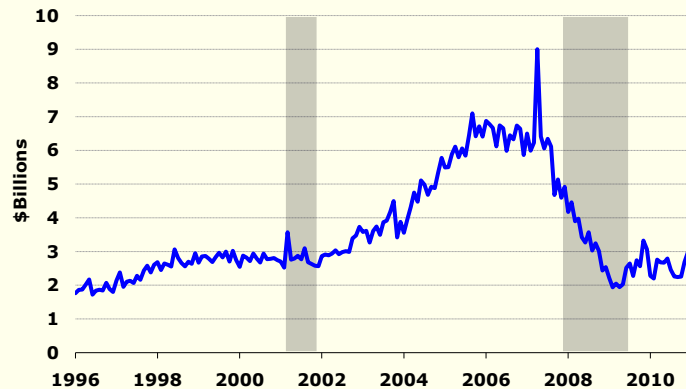
REET improving in fits and starts

January and February collections were up 8.4% and 4.2% year-over-year respectively after months of declines due to last year's federal tax credit

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Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; monthly data through February 2011 preliminary

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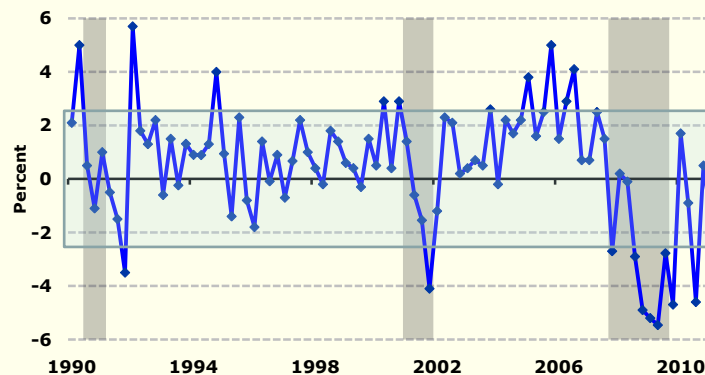


Revenues are coming in close, but below the November forecast

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Average Adjusted Monthly Variance



Source: ERFC; Based on collections as of March 2, 2011

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Conclusion

- 2011 will be a year of transition to stronger growth
- WA is still likely to outperform the nation
- Uncertainty remains high, and downside risks are greater than upside risks
- Energy prices pose the biggest threat to the recovery, and could trigger another recession
- The next revenue collection update will be published on the 11th of March, and our new revenue forecast will be presented on the 17th.

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Questions



Arun Raha
Economic Review
04 March 2011

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Economic & Revenue Forecast Council
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Olympia WA 98504-0912

www.ercf.wa.gov
360-570-6100

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U.S. Forecast Comparison		Fiscal years			
	2010	2011	2012	2013	
Real GDP					
2005 USD billions					
March Preliminay Forecast	13,053	13,443	13,899	14,336	
Growth	0.7%	3.0%	3.4%	3.2%	
November Forecast	13,053	13,377	13,767	14,210	
Growth	0.7%	2.5%	2.9%	3.2%	
Difference in level	0	66	131	126	
Difference in growth forecast	0.0%	0.5%	0.5%	-0.1%	
Real Consumption					
2005 USD billions					
March Preliminay Forecast	9,211	9,456	9,750	9,969	
Growth	0.4%	2.7%	3.1%	2.3%	
November Forecast	9,211	9,414	9,640	9,852	
Growth	0.4%	2.2%	2.4%	2.2%	
Difference in level	0	42	110	118	
Difference in growth forecast	0.0%	0.5%	0.7%	0.1%	
Implicit Price Deflator					
Index 2005 = 100					
March Preliminay Forecast	110.4	112.0	113.9	115.7	
Growth	1.3%	1.4%	1.7%	1.5%	
November Forecast	110.4	112.0	113.8	115.7	
Growth	1.3%	1.5%	1.6%	1.7%	
Difference in level	0.0	0.0	0.2	0.0	
Difference in growth forecast	0.0%	0.0%	0.2%	-0.1%	
Unemployment Rate					
Percent of Labor Force					
March Preliminay Forecast	9.7%	9.3%	8.3%	7.4%	
November Forecast	9.8%	9.6%	8.8%	7.7%	
Difference in forecast	0.0%	-0.3%	-0.5%	-0.3%	
30 Year Fixed Mortgage Rate					
Annual Average					
March Preliminay Forecast	5.0%	4.7%	5.1%	5.8%	
November Forecast	5.0%	4.3%	4.6%	5.6%	
Difference in forecast	0.0%	0.4%	0.4%	0.1%	
3 Month T-Bill Rate					
Annual Average					
March Preliminay Forecast	0.1%	0.2%	0.6%	2.8%	
November Forecast	0.1%	0.2%	0.6%	2.8%	
Difference in forecast	0.0%	0.0%	0.0%	0.0%	

Washington Forecast Comparison**Fiscal years**

	2010	2011	2012	2013
Real Personal Income				
2005 USD billions				
March Preliminary Forecast	261.4	268.7	277.2	286.9
<i>Growth</i>	-0.7%	2.8%	3.2%	3.5%
November Forecast	261.4	265.1	272.6	283.1
<i>Growth</i>	-0.7%	1.4%	2.8%	3.8%
Difference in level	0.0	3.5	4.5	3.9
<i>Difference in growth forecast</i>	0.0%	1.3%	0.3%	-0.3%

Nominal Personal Income

USD billions

March Preliminary Forecast	288.6	300.9	315.8	332.0
<i>Growth</i>	0.6%	4.3%	5.0%	5.1%
November Forecast	288.6	297.1	310.2	327.4
<i>Growth</i>	0.6%	2.9%	4.4%	5.6%
Difference in level	0.0	3.9	5.6	4.6
<i>Difference in growth forecast</i>	0.0%	1.3%	0.5%	-0.4%

Nonfarm Payroll Employment, End of Period

Thousands

March Preliminary Forecast	2,783	2,802	2,879	2,955
<i>Growth</i>	-1.6%	0.7%	2.7%	2.6%
November Forecast	2,791	2,809	2,884	2,962
<i>Growth</i>	-1.5%	0.7%	2.7%	2.7%
Difference in level	-8	-7	-5	-7
<i>Difference in growth forecast</i>	0.0%	0.0%	0.1%	-0.1%

Housing Permits

Units Authorized, Thousands

March Preliminary Forecast	19.0	21.0	27.6	38.5
<i>Growth</i>	-3.9%	10.5%	31.9%	39.2%
November Forecast	18.9	18.5	28.3	38.5
<i>Growth</i>	-4.9%	-1.9%	53.0%	36.2%
Difference in level	0.1	2.5	-0.6	0.0
<i>Difference in growth forecast</i>	1.0%	12.4%	-21.1%	3.0%

Year-Over-Year Employment Growth by Industry
(January 2010 to January 2011)
Washington vs. U.S.

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	13.7	0.5%	0.7%
Mining and Logging	0.3	4.8%	10.3%
Professional and Business Services	9.2	2.9%	2.3%
Wholesale Trade	2.2	1.9%	0.7%
Aerospace Product and Parts Manufacturing	1.4	1.8%	NA
Manufacturing Excluding Aerospace	3.0	1.7%	NA
Retail Trade	4.1	1.3%	0.5%
Leisure and Hospitality	3.3	1.3%	0.8%
Software Publishers	0.6	1.1%	NA
Education and Health Services	3.9	1.1%	2.0%
Transportation, Warehousing and Utilities	0.2	0.3%	1.6%
Government Education	-1.4	-0.6%	-1.0%
Information Excluding Software	-0.3	-0.6%	NA
Other Services	-1.0	-0.9%	2.0%
Financial Activities	-1.7	-1.2%	-0.8%
Government Non-Education	-3.1	-1.3%	-1.8%
Construction	-7.6	-5.3%	-2.5%
Information	0.2	0.2%	-1.1%
Manufacturing	4.4	1.7%	1.4%

Source: WA State ERFC, U.S. Bureau of Labor Statistics

County Taxable Retail Sales
Quarter 3, 2009 to Quarter 3, 2010
(Dollars in Thousands)

Rank	County	3rd Quarter, 2009	3rd Quarter, 2010	Percent Change	Taxbase Distribution
1	Garfield	4,375	7,484	71.1%	0.0%
2	Asotin	56,210	66,417	18.2%	0.3%
3	Columbia	9,372	10,801	15.2%	0.0%
4	Whitman	115,520	126,853	9.8%	0.5%
5	Clark	995,107	1,054,784	6.0%	4.0%
6	Benton	665,546	704,687	5.9%	2.7%
7	Klickitat	64,271	68,043	5.9%	0.3%
8	San Juan	109,601	115,747	5.6%	0.4%
9	Mason	129,904	134,958	3.9%	0.5%
10	Thurston	970,333	1,003,593	3.4%	3.8%
11	Clallam	249,643	258,022	3.4%	1.0%
12	Pierce	2,711,860	2,800,847	3.3%	10.6%
13	Yakima	701,898	714,192	1.8%	2.7%
14	Grays Harbor	223,982	227,141	1.4%	0.9%
15	Whatcom	756,811	766,414	1.3%	2.9%
16	Cowlitz	347,567	351,927	1.3%	1.3%
17	Snohomish	2,498,983	2,525,716	1.1%	9.5%
18	Chelan	365,679	368,764	0.8%	1.4%
19	Stevens	96,159	96,875	0.7%	0.4%
	Statewide	26,417,881	26,469,373	0.2%	100.0%
20	Kittitas	174,568	172,754	-1.0%	0.7%
21	Spokane	1,803,237	1,784,270	-1.1%	6.7%
22	King	10,184,367	10,057,336	-1.2%	38.0%
23	Lincoln	26,596	26,213	-1.4%	0.1%
24	Kitsap	800,969	787,242	-1.7%	3.0%
25	Ferry	15,597	15,307	-1.9%	0.1%
26	Skamania	24,632	24,162	-1.9%	0.1%
27	Franklin	250,302	244,746	-2.2%	0.9%
28	Skagit	541,428	526,328	-2.8%	2.0%
29	Grant	330,288	319,423	-3.3%	1.2%
30	Okanogan	141,205	136,460	-3.4%	0.5%
31	Island	197,233	187,142	-5.1%	0.7%
32	Jefferson	96,602	91,089	-5.7%	0.3%
33	Walla Walla	180,349	169,433	-6.1%	0.6%
34	Pacific	63,504	59,265	-6.7%	0.2%
35	Adams	58,467	53,994	-7.7%	0.2%
36	Lewis	275,036	252,581	-8.2%	1.0%
37	Douglas	135,532	122,105	-9.9%	0.5%
38	Pend Oreille	36,738	30,650	-16.6%	0.1%
39	Wahkiakum	8,407	5,608	-33.3%	0.0%
King/Snohomish/Pierce		15,395,210	15,383,899	-0.1%	58.1%
Remainder of State		11,022,671	11,085,474	0.6%	41.9%

Governor's Council of Economic Advisor's Forecast

March 4, 2011

	2011	2012	2013
<u>U.S.</u>			
Real GDP			
<i>Growth</i>			
ERFC	3.2	3.3	3.0
GCEA Average	3.0	3.1	3.0
Real Consumption			
<i>Growth</i>			
ERFC	3.2	2.6	2.2
GCEA Average	2.9	2.6	2.5
Implicit Price Deflator, PCE			
<i>Growth</i>			
ERFC	1.8	1.5	1.6
GCEA Average	2.0	2.1	2.2
Mortgage Rate			
<i>Percent</i>			
ERFC	5.0	5.2	6.3
GCEA Average	5.1	5.4	6.1
Oil Price (WTI)			
<i>USD per barrel</i>			
ERFC	98.9	100.9	99.0
GCEA Average	101.0	99.7	100.3

What is the probability of a hard landing in China within the next 12 months?*

20%

When and at what level do you think oil prices will peak?

\$127

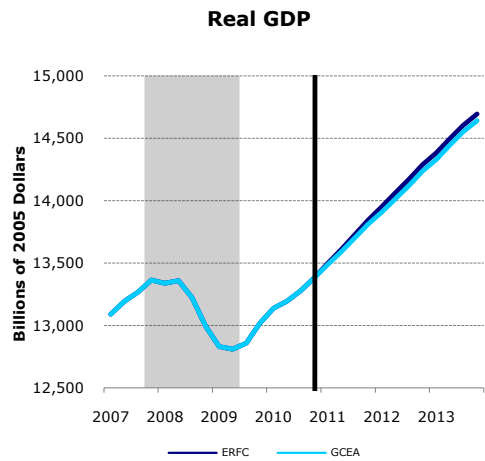
May-11

Washington State **Real Personal Income**

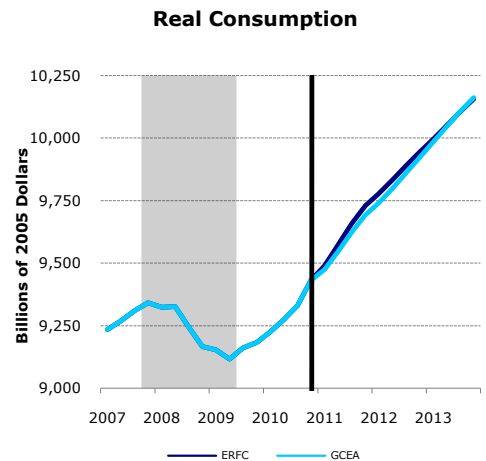
<i>Growth</i>			
ERFC	3.6	2.9	3.9
GCEA Average	3.1	2.9	3.6
Wage and Salary Employment			
<i>Growth</i>			
ERFC	1.2	2.8	2.6
GCEA Average	1.4	2.4	2.5
Manufacturing Employment			
<i>Growth</i>			
ERFC	3.1	4.5	3.8
GCEA Average	2.7	3.0	2.9
Construction Employment			
<i>Growth</i>			
ERFC	-2.4	5.7	8.9
GCEA Average	-1.4	3.4	5.0
Housing Permits			
<i>Thousands of authorized units</i>			
ERFC	22.9	33.5	41.8
GCEA Average	21.6	29.6	34.9
Washington Average Annual Wage			
<i>Growth</i>			
ERFC	3.5	3.6	3.3
GCEA Average	2.9	3.0	3.2

*** Hard landing defined as GDP growth <=6%**

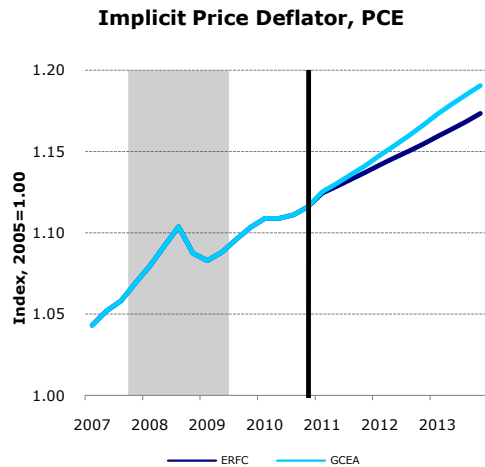
U.S. Forecast Comparison



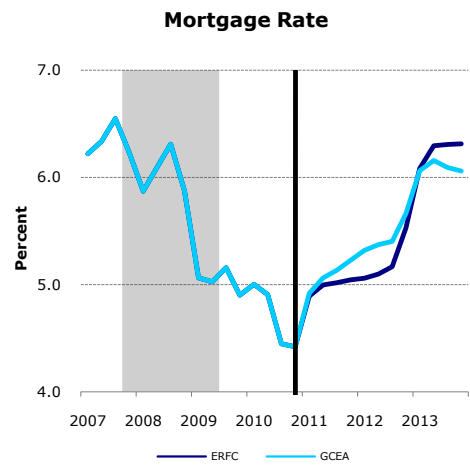
Source: BEA, ERFC, GCEA; Actual data through 2010 Q4



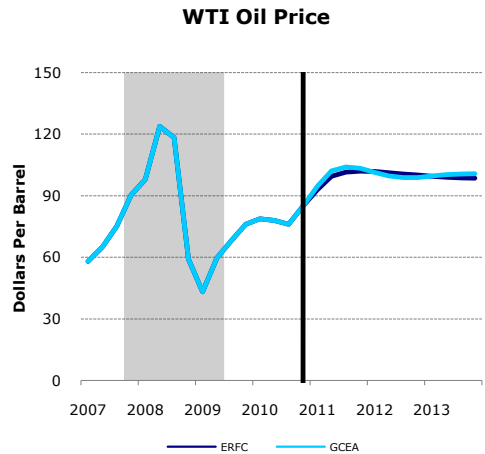
Source: BEA, ERFC, GCEA; Actual data through 2010 Q4



Source: BEA, ERFC, GCEA; Actual data through 2010 Q4



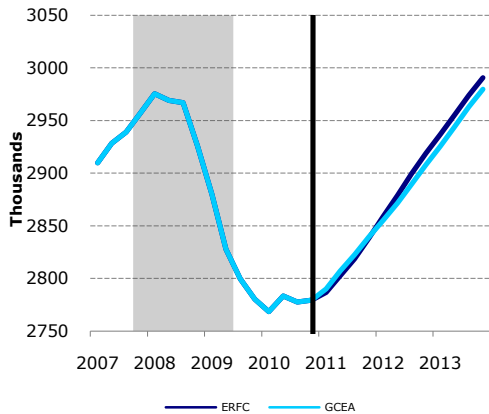
Source: Freddie Mac, ERFC, GCEA; Actual data through 2010



Source: EIA, ERFC, GCEA; Actual data through 2010 Q4

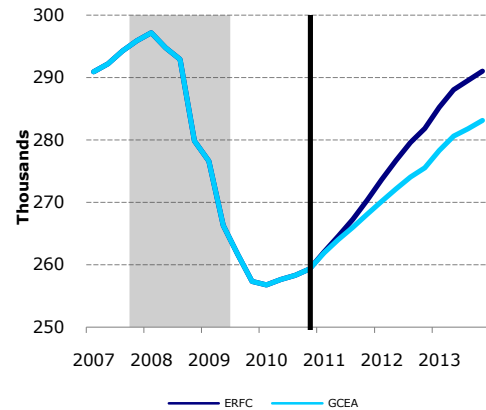
Washington Forecast Comparison

Nonfarm Payroll Employment



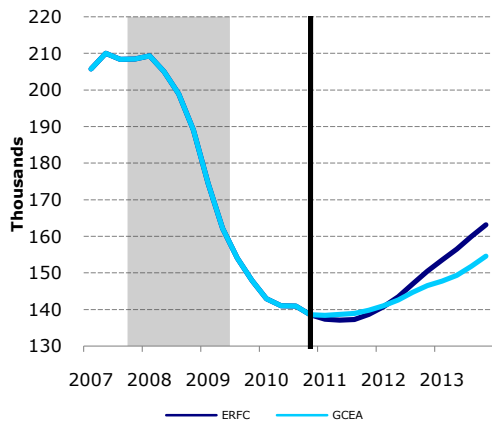
Source: ESD, ERFC, GCEA; Actual data through 2010 Q4

Manufacturing Employment



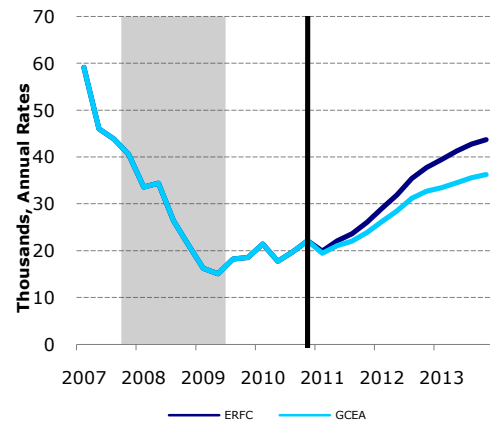
Source: ESD, ERFC, GCEA; Actual data through 2010 Q4

Construction Employment



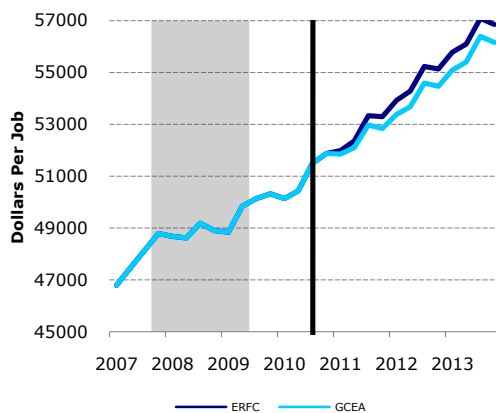
Source: ESD, ERFC, GCEA; Actual data through 2010 Q4

Housing Units Authorized



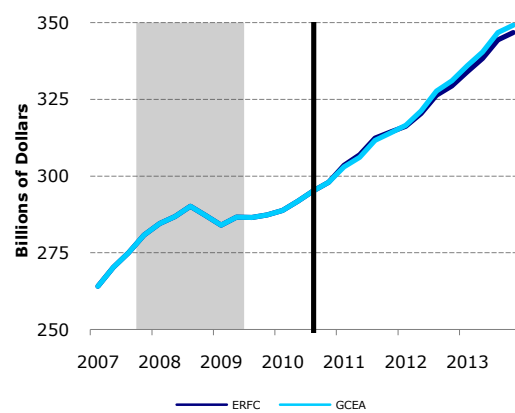
Source: Census, ERFC, GCEA; Actual data through 2010 Q4

Average Annual Wage



Source: BEA, ESD, ERFC, GCEA; Actual data through 2010 Q3

Personal Income



Source: BEA, ERFC, GCEA; Actual data through 2010 Q3